

City Of Durham, North Carolina

MEMORANDUM

DATE: May 15, 2004

TO: Marcia L. Conner, City Manager

THROUGH: Sharon Goode Laisure, Assistant City Manager

FROM: Julie Brenman, Budget & Management Services Director
Kenneth C. Pennoyer, Finance Director

RE: **FY 2003-04 Third Quarterly Financial Report**

Executive Summary

We are pleased to present the third Quarter Financial Report for FY 2003-04. We must emphasize this report is based on nine months of financial information. Based on the results of the third quarter report, we will continue to carefully monitor expenditures and revenues in certain areas identified below in order to ensure we end the year with a balanced budget.

Attached Exhibits

A number of charts and tables are attached to this document to provide the Council with additional information on our financial status in key areas. Below, we provide an overview of the attachments.

Exhibit 1: Major Initiatives

This provides a summary of the activity and status of each Major Initiative supporting the City Council goals through March 2004.

Exhibit 2: General fund Budget-to-Actual Summary and By Department

This provides a summary of budgeted general fund dollars in each department and the actual spending in those departments during the first three quarters. Based on third quarter expenditures and revenues, we project the General Fund will end the year with a slight surplus. We must emphasize that these preliminary figures are based only on the third quarter and are subject to change before year-end.

We currently project that all departments will end the year within budget. Overall, we are estimating that we will spend \$2.58 million less than budgeted. In the first quarter report, we projected that some departmental personal services accounts (staff salaries and benefits) would end the year over budget. Due to measures put into place to curtail

overtime expenditures and a mid-year budget amendment allocating \$400,000 to the Police Department, we no longer project an overage.

Based on activity during the third quarter, we are projecting our revenues to come in \$2.05 million under budget. Revenues in the “charges for services” and “intergovernmental revenues” categories make up the majority of the shortfall. We will continue to monitor these categories closely.

Exhibit 3: Enterprise Fund Budget-to-Actual

This provides a summary of budgeted revenues and expenditures in each enterprise fund. We have summarized below the outcome for each major fund.

Water & Sewer Operating Fund

The third quarter continues to show the effects of virtually flat water use. Water demand has remained down for the past two years as a result of historic drought followed by rainfall amounts which exceeded 150% of normal. As a result, operating revenues have remained consistently below budget. Ironically, the 2002 drought conditions and the extremely wet conditions of 2003 have produced very similar water use patterns.

The increase in rates and the movement of some costs from coverage by the consumption charge to coverage by the service charge have substantially helped the fund in these difficult times.

The first management action taken was to reduce the planned transfers of revenue to capital project and debt service reserves. This reduced planned fund expenditures by \$2.81 million.

While the March monthly financial report for the Water and Sewer Fund shows that the fund is currently running a deficit of approximately \$600,000, additional steps have been taken to defer planned pay as you go CIP expenditures for the remainder of the year. This action defers \$1,250,000 in planned capital spending, as well as the deferral of other planned expenditures.

It is still projected that the revenue bond debt service covenants will not be met for Fiscal 2004. That is due to the failure of operating revenues to cover operating expense and debt service at the required ratios. Regular operating expenditures other than those related to capital projects as mentioned above, remain close to budget levels. However, as noted, operating revenues, which are those revenues related to customer demand, remain consistently low. Any consideration for a potential issue of revenue bonds during FY2005 would be dependent upon the ability of the Fund to break even in FY2004.

Storm Water Management Fund

The third quarter revenue has increased over prior years for this time period. This is expected due to the increase in development.

Operating expenditures through the month of March are under budget. The Storm water budget shows additional budgeted funding for approved budget carryovers. These budget carryovers are part of projects that are to be completed or have contract obligations by the end of the fiscal year. This would still leave the fund with a projected surplus at the year end.

Ballpark Fund

The Ballpark Fund relies on the General Fund for at least 75% of the budgeted funding. The third quarter results for both revenues and expenditures, projected for the fiscal year, are within the budget target range. The seasonal activity of the Ballpark, and the timing of payments from the vendors, requires seasonal adjustments to the projections.

Parking Facilities Fund

As was true for the second quarter, third quarter projections remain cautiously optimistic. The outsourced parking operations have now been in place for 1 year. Data supplied by General Services and the parking vendor continue to indicate that revenues will not meet budget expectations. Should this occur, the contract price break point of \$1,090,000 in Garages and Lot 8 revenues will not be achieved and the payment to the vendor will not decrease from 72.73% of these revenues to only 20% on any excess. Achievement of the price break point is the key factor to a successful year in this fund. The parking contract also includes fixed fees as well as an 8% of revenues payment to the vendor for on-street parking services. Although these services are included in the contract and in parking operations, they are accounted for separately in the General Fund and are thus not part of the Parking Fund projections.

The Parking Fund is budgeted to generate about two-thirds of its \$2 million budget from charges and receives a General Fund subsidy for the remainder. It was expected that outsourcing would produce a net improvement to the percentage of budgeted revenue generated from charges for services. As debt service payments increase in the next few years until final payoff in fiscal year 2011, it is imperative the anticipated charges from outsourcing the services materialize or future General Fund subsidy would be needed.

Transit Operations Fund

Third quarter projections indicate that the Transit Operations Fund is well within budget targets. Additional State grant funding is reflected in the actual revenue and accounts for the appearance that revenue will come in well over budget. Overall, Transit fiscal operations are progressing as expected.

The Transit Fund receives a significant amount of support from other funds. Specifically, the General Fund and Transit Trust Fund accounted for 35% of budgeted fund revenues. Federal grants are the other large funding source for the Transit Operations Fund. Federal grants are generally accounted for in a separate grant fund although much of this funding is utilized for maintenance and other ongoing operational needs. With the fee increases recently approved, charges to system riders are designed to return about 25% of the cost of operations. Federal and State funds are then funding the remaining 40% of Transit Fund operations.

Solid Waste Disposal Fund

Projected operating revenues remained consistent with those from the second quarter and indicate that fiscal year end revenues will not fall significantly short of budget, as was indicated by the first quarter numbers. To date, expenditures are also projected to be within budget targets.

Overall, the Solid Waste Disposal Fund generates approximately 70% of its budgeted needs. A General Fund subsidy provides the remaining 30%.

Water and Sewer Capital Facility Fee Fund

While first quarter revenues indicated that these fees might grow moderately from the prior year, there was a significant slow down in second quarter activity. Based on third quarter results, it now appears that revenues for FY2004 will be about the same level as realized in FY2003. This will be a significant departure from the expected budget result, that was experienced in FY2003. Timing issues with revenue recognition from these projects could again change the outlook as we progress further into the fiscal year.

Capital Facility Fees are charged to new development or facility expansion that results in a greater demand on the City's water supply, water treatment capacity, and wastewater treatment capacity. These fees are currently transferred to the Water and Sewer Operating Fund where they are expended on debt service associated with providing for capital facilities; which are the purpose for the fee collection.

Civic Center Fund

Third quarter projections still indicated revenues for services will fall short of budget expectations. However, there have been some improvements in revenues from the second quarter. Operating deficits in enterprise funds result in a reduction of fund equity (und balance).

Exhibit 4: Capital Projects

This report provides a brief summary of the capital projects.

Exhibit 5: Grants

This provides a summary of spending in each of our major grant funded programs.

Exhibit 6: Investments

This provides a summary of the allocation of our investment portfolio as well as the investment earnings during the first three quarters of this year. An economic report prepared by the Treasury staff is also included in this exhibit.

Exhibit 7: Risk

This provides a report of claims payments made to liability claimants in accordance with Council resolution #8810 during the third quarter.

Exhibit 8: Contracts

This provides a summary of the number of contracts that were authorized during the first three quarters of FY04.

Exhibit 9: Status of Audits of Non-City Agencies

Audit Services monitors non-city agencies for compliance with audit or sworn statement requirements. This table is provided quarterly to give the City Council a status report on the number of agencies that have submitted audits or sworn statements.

Exhibit 10: Impact Fees

This table shows the amount of impact fee funds available for streets, open space and parks, by zone.

Exhibit 11: Tax Collections

This provides tax levy analysis and shows the year-to-date tax collection percentage.

Exhibit 12: Downtown Revitalization Fund Expenses

This provides detail of expenses out of the Downtown Revitalization Fund.

Exhibit 13: Ice Storm and Hurricane Fran Audits

This provides narratives on the December 2002 Ice Storm, and Hurricane Fran – Final Audit.

Exhibit 14: Planned Debt Issuance

This report summarizes the two-thirds GO bonds issue planned for May 18, 2004.

Exhibit 15: Audit Services Status Report

On April 26, 2004, the City's Audit Services Oversight Committee received a status report on audit recommendations for the three months ended March 31, 2004. During this period, the Audit Services Department issued three comprehensive audit reports. The reports included nine recommendations. City management fully concurred with each recommendation. The attached recommendations/implementation schedule includes the follow-up status of these recommendations along with seven recommendations carried over from the previous reporting period. City Management has been actively addressing audit findings and recommendations as well as the underlying causes of findings.

Practical approaches to responding to audit findings and recommendations that are both effective and efficient have been examined. These efforts have been coordinated with several initiatives of the City including the City's ERP (Enterprise Resource Planning) project, Purchasing & Contracting Re-engineering Committee, and the internal task team approach to process improvement.

Future Reports

The Finance and Budget Departments have established the following reporting schedule for FY 2003-04. It is our intention to follow this schedule in order to provide timely information on the financial status of the City.

Quarter	End of Quarter	Tables Prepared	Report Completed
1 st quarter	Sept. 30	Oct. 30	Nov. 15
2 nd quarter	Dec. 31	Jan. 30	Feb. 15
3 rd quarter	Mar. 31	Apr. 30	May 15
4 th quarter	Jun. 30	Aug. 30	Sept. 15